

Department of Energy
Working Capital Fund
WCF Cost Structure Analysis, FY 2007

Introduction

In response to the 1997 Inspector General report, Fund management agreed to provide a report to the Board that identifies Working Capital Fund business costs not now reflected in the Working Capital Fund pricing structure ... [including] the hypothetical impacts on business line viability of including such costs in the Fund pricing structure.¹ The first report was transmitted to the Board on June 30, 1998. This current report updates the previous nine reports and summarizes areas of change.

Since the creation of the Working Capital Fund (WCF), there have been numerous changes in the structure and offerings of the Fund businesses:

- The Contract Audit and Executive Information System businesses were eliminated in FY 1998 and FY 1999, respectively;
- The Payroll business was added in FY 2000;
- The Supply business was outsourced in FY 2001;
- In FY 2001 the Board approved the addition of two new businesses, the Online Learning Center and CHRIS;
- Beginning in FY 2003, the Copy Business Line introduced document imaging and Optical Character Recognition (OPR) services;
- For FY 2004, the Board approved the addition of a new Project Management Career Development Program business line, expansion of the Contract Closeout Business Line to include purchase card surveillance; expansion of the Online Learning Center Business, which was renamed to Corporate Training Services; and expansion of the Telephone business line to include cell phones and other devices;
- For FY 2006 the Desktop and Network Businesses merged into one business and the Department added the STARS business line (no employees);
- In FY 2006 the Office of Management, Budget, and Evaluation was reorganized into the successor organizations of the Office of Management, Office of Human Capital Management, and the Office of Chief Financial Officer. There are now four parent organizations for WCF businesses including the Office of Chief Information Officer.
- The Financial Control (A-123) business was added in FY 2007; and,
- Administrative Services were subject to outsourcing and the Office of Administration subsidizes contract costs instead of subsidies for federal payroll. This subsidy will be remedied in FY 2009 when the programs will budget for this contractual expense.

¹ Reference: Attachment to January 13, 1998 memorandum from the Assistant Secretary for Human Resources and Administration to the Acting Inspector General.

Summary of Results

Indirect Costs ² for FY 2007 are reported at 13.9% of the revenues of the respective WCF businesses. Indirect Costs, estimated at \$14.7 million for FY 2007, are funded in the budgets of the Office of Management, Office of Human Capital Management, Chief Financial Officer, and the Chief Information Officer. Page seven demonstrates the impact of the subsidies on business line cost structure (except Building).

Background

- Federal Accounting Standards Advisory Board (FASAB) guidelines for managerial cost accounting require that "all costs be recognized in developing the price at which goods and services would be sold to other entities [within the government]."
- However, since FY 1997, the House Energy and Water Development Appropriations Committee report has directed the Department not to include the costs of Federal employee salaries and benefits in the cost structures of the Fund business lines.
- The 1997 WCF report prepared by the DOE Inspector General also raised the issue of indirect costs, and management agreed to prepare an analysis of such costs by June 30, 1998 and to advise the Board of likely impacts on business line viability.
- While the policies of the House Appropriations Committee and DOE management preclude the inclusion of DOE Federal salaries and certain related costs in the Fund pricing structure, there remains the question of whether such exclusion may have a material impact on customer and business line behavior. This analytical question, rather than the policy question, is the subject of this report.
- This FY2007 report concludes that the costs to the business lines would increase if we charge full cost by approximately \$14.7 million, or 13.9%, if the cost structures were expanded to include salaries (\$6.7 million) and other costs (\$8.0 million)³.

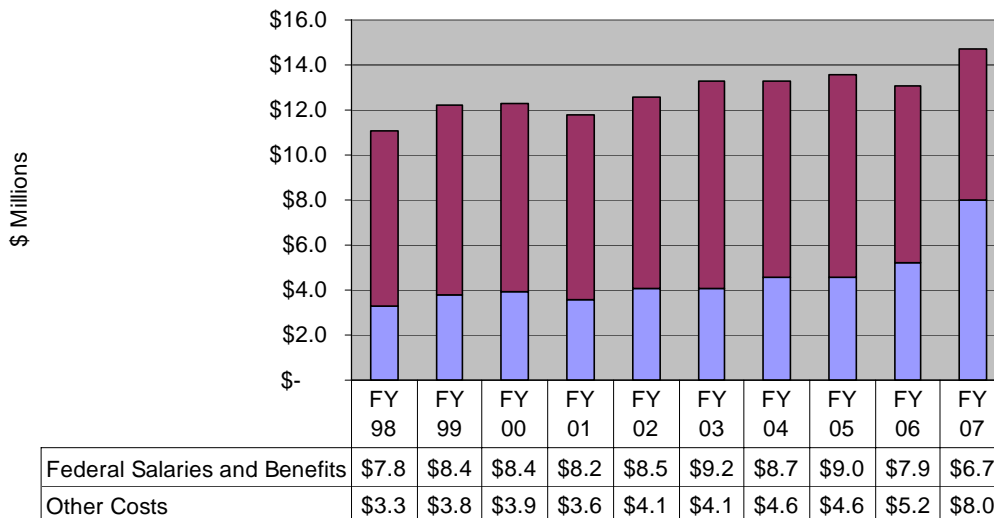
Analytic Approach

The focus of the 2007 analysis was to validate and update the estimates provided with the 2006 report. Each business line manager provided updated employment and space estimates for their respective businesses. The data are presented on the basis of annualized FY 2007 costs they were estimated at the time of the issuance of the June 2007 bill.

² The term, indirect costs as used in this paper, refers to costs that are not recognized in the Fund because of regulatory considerations. In fact, these categories of costs would normally be considered direct in most financial contexts.

³ The FY07 decrease in Federal Salaries and benefits are due to Building business conversion from federal employees to contractors. The Office of Management subsidizes the \$2.6 million of cost for the L.A.I. contract which are added to other costs. This will not be charged to programs in the WCF until the FY 2009 Budget.

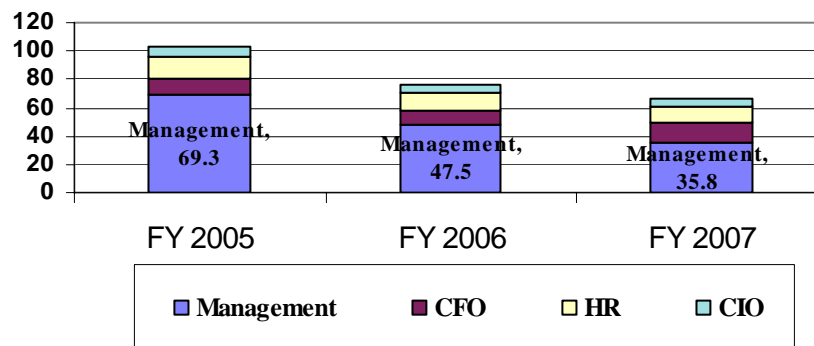
Chart I. Working Capital Indirect Cost



Staffing Levels

It is estimated that 66 Federal staff are directly engaged in the operation of the Fund businesses. Table III provides these estimates by business line in comparison to estimates in previous reports, and also includes FY 2007 salary and benefits estimates. It is important that this baseline is established to allow comparisons next year and beyond with post A-76 business line structures. In this comparison of FY 2005, FY 2006 and FY 2007 you can see the effect of the changes on the Office of Management.

Chart II. Impact of Competitive Sourcing



Inter-Business Transactions

Working Capital Fund businesses consume goods and services that are provided by other Fund businesses, but heretofore only a small proportion of these charges are made to the consuming business. For the most part, the offices of Chief Financial Officer, Management, Human Capital, and Chief Information Officer have paid these other related expenses as though they were derived from non-WCF activities. The 1998 analysis estimated these costs at approximately \$3.3 million. These costs have grown incrementally each year to equal \$8.0 million in FY 2007.

Table II: FY 2007 Inter-Business Costs (\$000)

Business Line (Consumer)	Building Occupancy	Other WCF	eXCITE	Total
Telephones	\$198	\$35	\$166	\$399
Networking	\$1,134	\$52	\$65	\$1,251
Building Occupancy	\$730	\$151	\$68	\$949
LAI Subsidy	\$0	\$2,580	\$0	\$2,580
Supplies	\$242	\$43	\$25	\$310
Copiers	\$201	\$9	\$32	\$242
Mail Service	\$221	\$13	\$5	\$239
Printing & Graphics	\$869	\$60	\$63	\$992
Procurement Management	\$66	\$32	\$58	\$156
Payroll	\$62	\$69	\$44	\$175
Corporate Training Services (CTS)	\$55	\$30	\$25	\$110
CHRIS	\$79	\$236	\$40	\$355
Project Management Career Development Program (PMCDP)	\$20	\$47	\$10	\$77
A-123	\$31	\$6	\$29	\$66
WCF Management Activity	\$11	\$126	\$8	\$145
Total	\$3,920	\$3,489	\$638	\$8,046

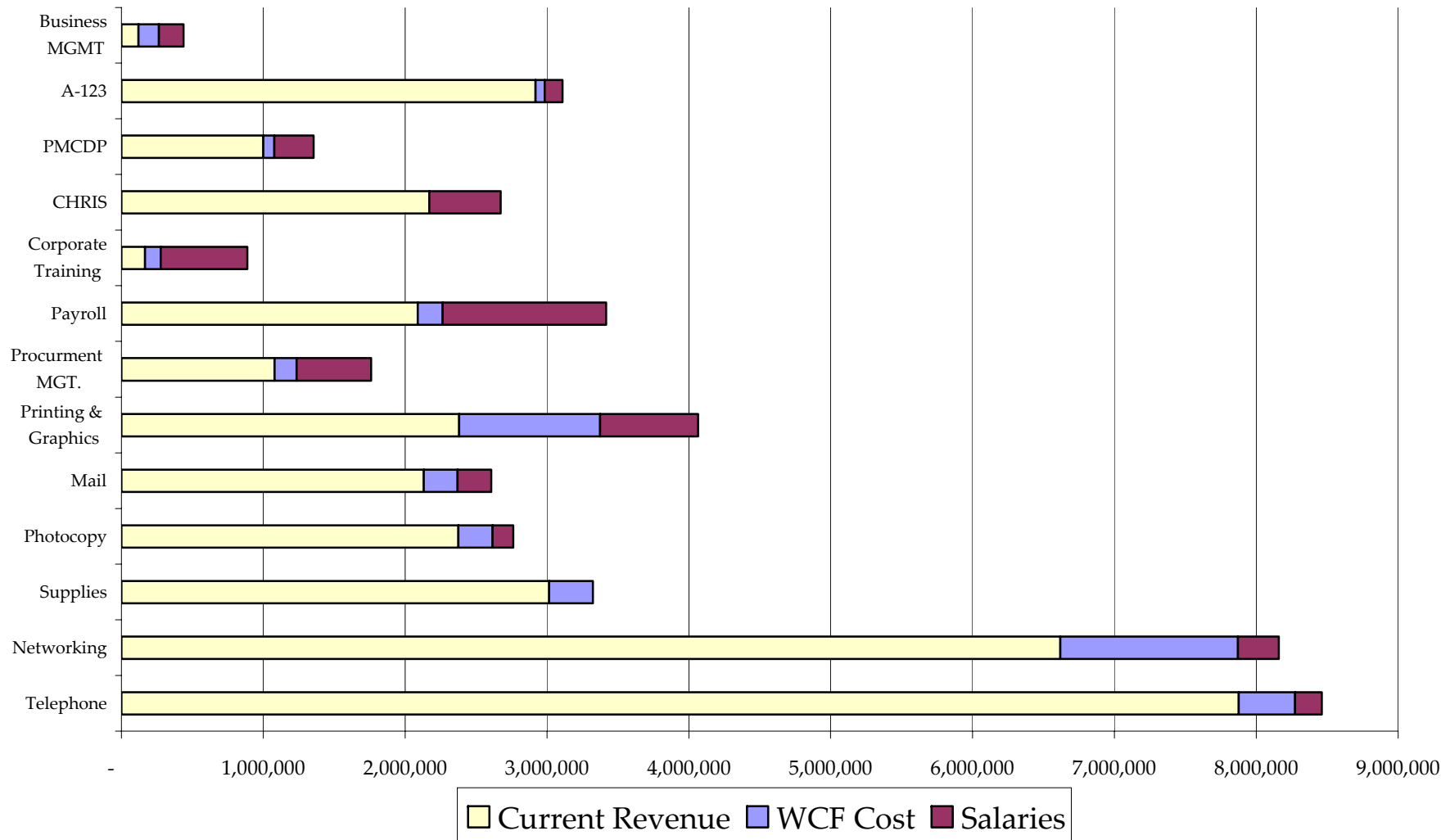
In this report, we have not attempted to quantify further costs that are absorbed by the parent organizations; such as, training or travel that might also be associated with the Federal employees performing WCF services. These charges are difficult to trace back to the business and deemed to have a trivial impact on this analysis.

Overall Cost Impacts on Businesses

Overall, we estimate that including the Federal salaries and inter-business costs in the Fund would expand Fund costs by \$14.7 million. Table II below shows the subsidy rate for Building Occupancy of 8% which tends to bring the overall average down considerably. Without the Building Occupancy business, the average subsidy rate is estimated at 29 %.

Table II: 2007 Subsidies by Business Line		
Business Line (Consumer)	Total Subsidy (\$000)	Percent of Current Billings
Fund Mgr	\$318	0%
A-123	\$190	7%
Phone	\$587	8%
Building Occ	\$5,329	8%
Supplies	\$310	10%
<i>Average for All Businesses</i>		14%
Copiers	\$387	16%
Network	\$1,539	23%
Mail	\$476	22%
<i>Average for Businesses other than Building Occupancy</i>		29%
CHRIS	\$859	40%
PMCDP	\$356	36%
Payroll	\$1,326	63%
Printing & Graphics	\$1,684	71%
Corporate Training Services	\$721	432%

WCF Cost Subsidy, 2007



Indirect Study

September 2007

Table III: Federal Employees Engaged in Delivering WCF Services by Business Line, 1998 - 2007.											FY 2007 Salaries & Benefits (\$000)
Business Line	Federal Staff members										
	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	
Telephones	3	4	4	3	3	3	3	2	2	2	\$188
Networking	2	1	1	2	2	2	2	1.5	NA	NA	NA
Desktop	3	3	3	3	3	3	5	3.5	NA	NA	NA
Network & Desktop	NA	NA	NA	NA	NA	NA	NA	NA	4	3	\$288
Building Occupancy	70	69	69	71	68	61	53	51	29	19	\$1,799
Supplies	6	7	7	2	0	0	0	0	0	0	\$0
Copiers	2	3	3	3	2	3	3	2.3	1.6	1	\$145
Mail Services	2	2	2	2	3	2	2	2	2	2	\$238
Printing & Graphics	25	24	23	22	23	14	12	9	9	8	\$692
Procurement Management	0	0	0	2	3	3	4	3	4	4	\$525
Payroll	7	17	11	15	12	11	11	9.4	9.4	11.4	\$1,152
Corporate Training Services	NA	NA	NA	NA	3	5	3	6.5	5	5	\$611
CHRIS	NA	NA	NA	NA	3	11	12	8	7.1	7.1	\$504
PMCDP	NA	NA	NA	NA	NA	NA	2	2	1.9	1.8	\$279
Fund Manager	NA	2	2	2	2	3	3	2.3	1.2	1.1	\$172
A-123										1	\$124
Total	120	130	125	127	127	121	115	102.5	76.2	66.4	\$6,717
Management	NA	NA	NA	NA	NA	NA	NA	69.3	47.5	35.8	\$3,678
Chief Financial Officer	NA	NA	NA	NA	NA	NA	NA	11.7	10.6	13.5	\$1,448
Human Capital Management	NA	NA	NA	NA	NA	NA	NA	14.5	12.1	12.1	\$1,115
Chief Information Officer	NA	NA	11	8	8	8	10	7	6	5	\$476